

**DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS**

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March 3, 2009

Ms. Michelle Padilla  
Audit Liaison Officer  
Office of Safe and Drug-Free Schools  
The Wanamaker Building  
100 Penn Square East, Suite 513  
Philadelphia, PA 19107

RE: Response to California Audit Control Number 09-07-89662

Dear Ms. Padilla:

The purpose of this letter is to respond to the findings from the California Bureau of State Audits single state audit for the fiscal year ending June 30, 2007. The following information is provided in addition to that published in the audit report.

Audit Control Number 2007-1-9

Auditor Recommendation: The Department of Alcohol and Drug Programs (ADP) should establish policies and procedures to ensure that federal awards are expended for only allowable costs and activities.

Response: ADP has established policies and procedures to ensure that federal awards are expended only for allowable costs and activities.

In 2005, the Substance Abuse and Mental Health Services Administration (SAMHSA) contracted with a nationally-known provider of federal grants management training, Management Concepts, to review ADP's discretionary grants program and provide technical assistance (TA) to improve the process. Mr. Sefton Boyers, retired Department of Education Regional Inspector General for Audit in Regions IX and X, was the TA provider. He reviewed the processes ADP had in place for both its SAMHSA discretionary grants and its Safe and Drug Free Schools and Communities competitive grants. He recommended that ADP use the Department of Health and Human Services Office of Inspector General *Protocol for Assessing States' Monitoring of Subgrantees* (December 2004), as a resource for determining the standards ADP must meet in monitoring its subawards. The Protocol was developed by an interdepartmental task force, including the Department of Education. Federal requirements cited in the Protocol are OMB Circular A-133, § 400 (d) et seq., and Title 45 CFR § 74.51(a) and § 92.40(a).



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The Title 45 citations are identical to the provisions provided in Title 34 CFR § 74.51(a) and § 80.40(a).

In his analysis, Mr. Boyer stated:

“From the OIG protocol, it is evident that ADP can satisfy the monitoring requirements of A-133 and 45 CFR 92.40(a) by having at least one fiscal monitoring mechanism, e.g., financial reporting. ADP can have additional fiscal monitoring mechanisms, such as reviewing annual audits, where applicable.

“...Review of budgets prior to award is one method for screening planned costs for compliance with the cost principles. ADP is (at least in some instances) also reviewing all subrecipient expenditures after-the-fact to confirm allowability. However, federal agencies do not analyze their own recipients' expenditures this closely, unless a problem is evident. Most federal agencies depend on the much less detailed financial report, the SF-269, which does not require reporting by budget line item, let alone require submission of receipts. For grantees spending above the \$500,000 threshold, agencies supplement financial report information with annual audit results. Therefore, it seems reasonable that ADP could model its system on standards the federal agencies apply to themselves for ensuring appropriate use of federal funds.”

ADP described its fiscal and programmatic monitoring activities in its response to the auditor's recommendation.

In addition, it is the Department's view that the auditor has not determined “Effect,” as discussed in the *Yellow Book*, 4.18, in relation to the \$1,139,832 of questioned costs. That is, the auditor has not determined that any of the funds were spent improperly.

#### Audit Control Number 2007-13-10A

Auditor Recommendation: ADP should institute procedures to ensure that it properly informs each subrecipient of the award information and of the requirements imposed on them by federal laws, regulations, and other provisions.

Response: ADP's Safe and Drug Free Schools and Communities grant agreement contains several documents, including the two-page “face page” entitled “Notice of Grant Agreement,” the approved application, detailed budget and budget justification, terms and conditions, the signed certifications and assurances, and by reference, the Request for Application. The first page of the two-page face page must be signed by authorizing officials for the agreement to be executed. This page is revised only for changes such as new signatories, amount of the grant, or project period. Page two

of the two-page face page is revised every year to obligate new funds to support subsequent years of the multi-year agreement. These types of actions constitute revisions to an existing agreement; they do not constitute entering into a new agreement. The federal requirements (statute, regulations, non-regulatory guidance, etc.) are included in the documents that make up the Agreement, and continue to be part of the existing agreement when the face pages are revised.

The Department also passes down the CFDA number, source of funds, and the name of the program, "Safe and Drug Free Schools and Communities," in the Agreement.

However, there are differences in the program name in the Catalog of Federal Domestic Assistance, on the Department of Education Notice of Grant Award, in the statute, and in the OMB Circular A-133 Compliance Supplement. ADP seeks clarification about whether its reference to the program as "Safe and Drug Free Schools and Communities" is sufficient.

#### Audit Control Number 2007-2-4

Auditor Recommendation: ADP should improve its controls to ensure that it correctly charges payroll costs to the federal program it administers and promptly adjusts any discrepancies that arise.

Response: The error noted by the auditor has been corrected, and the \$126.04 in question has been removed from charges to the SDFSC grant.

#### Audit Control Number 2007-3-4

Auditor Recommendation: ADP should amend its procedures to require the accounting administrator to sign all three copies of the RAs prior to sending them to the Treasurer's Office.

Response: ADP now assures that an accounting administrator signs all three copies of the RAs prior to sending them to the Treasurer's Office.

#### Audit Control Number 2007-8-5

Auditor Recommendation: ADP should update its grants administrative manual to include the procedures it uses to ensure compliance with the SDFSC federal period-of-availability requirements.

ADP should also ensure that those individuals responsible for reviewing and approving the grantees' quarterly claim forms should identify the correct federal grant and the

amounts to charge.

Finally, ADP should ensure that individuals responsible for reviewing and approving the SDFSC tracking log for budgets verify the accuracy of the amounts contained in this document.

Response: To comply with period of availability requirements, ADP continues to adhere to the procedures agreed to in a March 25, 2004, letter from the Department of Education:

“[T]he Accounting Unit has established parameters in CALSTARS which will generate an error if expenditures are posted outside the period of availability. Accounting will review the transaction to determine if the obligations and expenditures occurred within the period of availability, and for services provided within such period.”

ADP will update its grants manual. Analysts will verify the period in which the services were provided.

The Grant Tracking Log is not intended to be used for period-of-availability. When a grant is initiated, a grant number is assigned, and the amount proposed for all budget periods is entered into the tracking log. Budgeted amounts are changed only if additional funds are added to the grant in the current or future grant period; amounts are not updated to reflect actual expenditures.

Audit Control Numbers 2007-13-13, 13-18; 7-12; 7-14; and 8-6

These findings apply solely to the California Department of Education.

If you have any questions regarding the information provided, please contact me at (916) 322-3014.

Sincerely,

ALICE HUFFAKER  
Chief  
Office of Grants Management